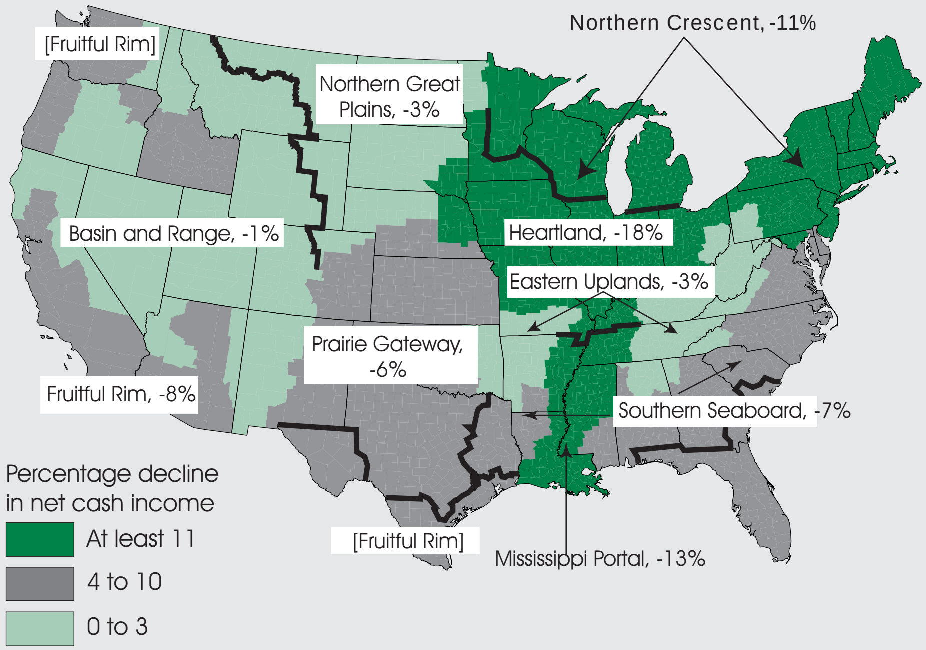
Agricultural Economy

Farm Income Outlook by Resource Region

Farm Income Is Forecast Down Sharply in the Nation's Midsection



Based on average net cash income for U.S. farms, 1998-99.

Source: Economic Research Service, USDA

The brunt of cash-flow problems for farm businesses in 1999 is expected to fall most heavily on three regions of the U.S.—the *Heartland*, *Mississippi Portal*, and *Northern Crescent*.

Given continued low prices for corn and soybeans, average net cash income in the *Heartland* is expected to be 18 percent lower than in 1998 and 35 percent below the 1997 average of $50,600. More than one in four farm businesses (40,800) may not earn enough income to cover expenses in 1999, compared with 15 percent in 1997 (the latest data available).

These anticipated cash flow problems will only compound financial difficulties for vulnerable farms (negative income and high debt levels), which account for 6 percent of the region's total (9,500). These farm businesses will need to address the shortfall in earnings quickly by liquidating inventories or tapping other working capital, selling off machinery and equipment, or offsetting farm losses with savings or off-farm income. Those without sufficient equity will need to restructure loan terms.

The farm businesses in the *Mississippi Portal* are also expected to experience cash flow difficulties in 1999. Lower receipts for cotton and soybeans and reduced government payments are expected to lower average net cash income to $73,000, down 13 percent from 1998. About 18 percent of the region's farm businesses (3,600) are not expected to cover cash expenses, compared with 16 percent in 1997. The share of vulnerable farms could reach 7 percent by the end of 1999, up from 6 percent in 1997.

The *Northern Crescent* is unique in being one of the few regions where, on average, 1998 net cash income is likely to be above the year before, thanks in large measure to higher milk prices. In 1999, a combination of falling milk prices and relatively low grain prices will result in an 11-percent decline in net cash income. But average net cash income for this region in 1999 is forecast not much below 1997's average of $50,300. The share of farm businesses in a vulnerable overall financial position should remain around 6 percent (3,200).

The *Heartland*, *Mississippi Portal*, and *Northern Crescent*—the regions with the highest year-over-year declines in average net cash income—are not the most susceptible to financial difficulties arising from cash shortfalls. Sharp declines in net cash income would be much more problematic if it were to occur in the *Northern Great Plains* (down 3 percent) or *Prairie Gateway* (down 6 percent). Each of these regions began 1999 with 8 percent of farms (3,500 in *Northern Great Plains* and 5,000 in *Prairie Gateway*) in a vulnerable financial position and another 13 percent of farm businesses (4,300 in *Northern Great Plains* and 7,500 in *Prairie Gateway*) with debt representing more than 40 percent of assets.

Average income in these regions is not expected to decline as dramatically as in other regions, because of somewhat more favorable cattle prices, the potential for lower production costs, and

This material was presented at USDA's 1999 Agricultural Outlook Forum, February 22-23, and is based on a new regional classification of farms developed by USDA's Economic Research Service that reflects land characteristics and commodity mix. This classification divides farms into more homogeneous groups compared with traditional regional groupings that follow political boundaries. For more information on the classification by resource region and a discussion of farm income changes by type of farm, the speech may be downloaded from www.usda.gov/agency/oce/waob/outlook99/speeches/014/morehart.doc higher government payments that should offset the effect of lower crop receipts on farm income. Even so, weather and disease problems have had a cumulative effect on financial performance of individual farm businesses in these regions that is not reflected in average net cash income. Results for the *Prairie Gateway* indicate that 30 percent of farm businesses (20,700) did not earn enough income to cover cash expenses in 1997, which was the highest percentage among regions.

The regional outlook for net cash income during the next 5 years—using national figures from USDA's agricultural baseline projections—suggests that cash flow problems are likely to persist in the *Heartland* and *Northern Great Plains*, with each region establishing new lows in net cash income each year through 2001. Average net cash income begins to inch up after 2001 in the *Heartland* but remains relatively flat in *Northern Great Plains.* As a result of persistent lower incomes in these regions, farm debt will remain fairly high relative to what can be repaid from current income. Farmers in both regions are projected to continue using available credit lines fully.

The *Mississippi Portal* projections also show net cash income declines during the next 5 years. But unlike other regions where income is falling, the level never drops below the most recent low ($56,700 in 1995). In the *Northern Crescent*, average net cash income declines through 2000 but rebounds to the 1997 level by 2003.

The farm financial outlook is more promising over the next 5 years in the *Fruitful Rim*, given the favorable outlook for vegetables, fruit, and nursery and greenhouse products and their relative importance to farm income in the region. The *Eastern Uplands* is also expected to have rising average net cash income, based on continued growth in poultry receipts and modest gains in cattle receipts. In the *Southern Seaboard,* average net cash income is expected to remain near 1998 levels. **AO**

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Average Net Cash Income to Decline in All Regions in 1999

Resource region	1993-97 average	1997	1998	1999	Region's share of U.S.farm businesses
	$1,000 per farm				*Percent*
Heartland	46.5	50.6	39.8	32.7	31
Northern Crescent	52.6	50.3	55.3	49.0	16
Northern Great Plains	47.4	40.5	37.9	36.7	8
Prairie Gateway	45.7	52.1	52.5	49.5	13
Eastern Uplands	33.2	37.3	42.1	40.8	7
Southern Seaboard	53.3	60.9	64.6	59.9	7
Fruitful Rim	100.5	142.6	141.6	129.8	11
Basin and Range	54.8	58.1	47.0	46.5	3
Mississippi Portal	75.9	81.9	83.8	73.0	4
All U.S. farm businesses	**54.3**	**61.7**	**59.2**	**53.3**	**100**

Net cash income is net cash earnings realized within the year from sales of production and the conversion of assets (including inventories) into cash. 1998 and 1999 forecasts. Total number of farm businesses (those with gross sales over $50,000) is 530,000.

Economic Research Service, USDA

About the Model

The regional scenarios analysis was conducted using a farm business financial partial budgeting model. The model is static—any potential structural or production response is not treated—and reflects historic production patterns and farm structure within each region. The model incorporates elements of income and expenses to project cash flow, assets, and debt. Results from the Economic Research Service's Short-term Forecast Model, the USDA Baseline Model, and FAPSIM model, were used as input into the farm business model to derive forecasts for specific categories of income and expenses (such as corn receipts and feed costs). The farm business model uses individual farm data for farm businesses (defined as those with gross sales of more than $50,000), obtained from USDA's Agricultural Resource Management Study (ARMS). Model results were summarized across resource regions to determine the relative impacts of the financial outlook. Since farm business performance varies within a region, these results are not used to predict performance of individual farms *within* a region.